HOUSING MARKET OUTLOOK
Saskatoon CMA

CANADA MORTGAGE AND HOUSING CORPORATION

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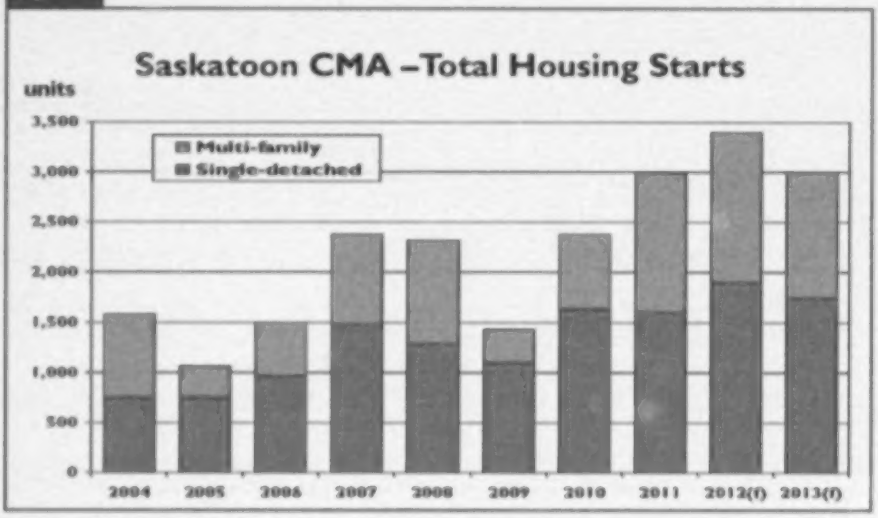
NEW HOME MARKET

Housing starts to remain elevated through 2013

Following a 26 per cent gain to 2,994 units in 2011, total housing starts in the Saskatoon Census Metropolitan Area (CMA) are on pace to reach 3,400 units in 2012. A strong rebound in employment growth, combined with elevated net migration and low mortgage rates have maintained new housing demand across the region. In 2013, housing starts will remain elevated at 3,000 units. Annual production in both 2012 and 2013 will rank among the highest in 30 years.

Housing starts in Saskatoon are reflecting the heightened pace of job growth and net migration. To the end

Figure 1



Source: CMHC, CMHC Forecast (f)

[1]The outlook is subject to uncertainty. Although point forecasts are presented in this publication, CMHC also presents forecast ranges and risks where appropriate. The forecasts and historical data included in this document reflect information available as of October 17, 2012.

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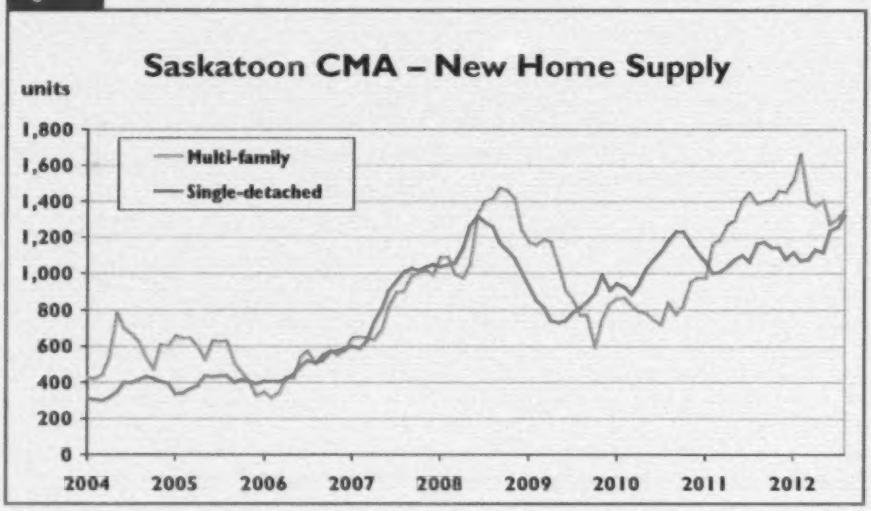
of August, housing starts in the Saskatoon CMA totalled 2,105 units, seven per cent higher than the pace set in 2011. The gain was particularly evident in the single-detached sector, where starts after eight months were up significantly from corresponding levels in 2011.

Moving into 2013, employment gains will help sustain strong migratory inflows, supporting heightened demand for new units. First-time homebuyer tax credits will also contribute to demand. However, an elevated supply of new units will inhibit growth in new home construction, as will higher monthly carrying costs. Additional listings in the competing resale market will also prompt some buyers to turn to an existing unit to meet their housing needs.

Single-detached starts set to moderate in 2013

Rebounding job growth, strong levels of net migration, and low mortgage rates, are supporting gains in single-detached construction. Following 1,608 single-detached starts in 2011, local home builders are on pace to construct 1,900 homes this year, an 18 per cent annual increase. In 2013, single-detached starts will remain elevated by historical standards, yet moderate slightly. Employment and wage growth along with net migration will maintain heightened demand next year. On the downside, competition from a well-supplied resale market, combined with modestly higher mortgage rates, rising supply levels, and the risk of elevating new home inventories, will prompt builders to scale back production to 1,750 units in 2013.

Figure 2



Source: CMHC

To the end of August, 1,294 single-detached starts were recorded, 17 per cent more than the corresponding period in 2011. This has contributed to elevated supply levels which will inhibit the pace of single-detached construction moving forward. At the end of August, the sum of units under construction and those that are complete and unoccupied totalled 1,322 units, 14 per cent higher than the previous year.

Gradual price increases in 2012 and 2013

Statistics Canada's New House Price Index (NHPI), which measures the difference in the price of new homes where the specifications remain the same between two consecutive periods, increased in Saskatoon by 1.4 per cent in 2011 over the previous year. Given the gain in housing starts so far this year and the corresponding rise in units under construction, additional price pressures are being witnessed. The number of units under construction recently reached a four-year high, contributing to upward pressure on the costs of labour and some building materials. Meanwhile, the heightened demand for newly developed lots this year is contributing to further gains in the land component of Saskatoon's NHPI. Moving forward, a reduction in housing starts and declining under construction levels should help ease some of these pressures. Following a 2.5 per cent gain this year, the NHPI in Saskatoon is expected to rise 2.2 per cent in 2013.

In 2011, the single-detached absorbed price averaged $389,580, up 2.4 per cent from the previous year. While the recent pace of growth in the NHPI would support a similar increase in the average absorbed price, year-to-date prices indicate Saskatoon is on pace for a stronger gain this year. To the end of August, the average absorbed price totalled $404,236, up six per cent from the previous year. This can be attributed to a higher proportion of absorptions of higher-

priced homes. After eight months, the share of homes absorbed above $500,000 was 17 per cent, up from a 10 per cent share one year earlier. Moving forward, the movement to higher-priced homes will slow due to modestly higher mortgage rates and increased monthly carrying costs. Considering these factors, the average absorbed price of single-detached homes will rise 3.7 per cent to $404,000 in 2012 and 2.2 per cent to $413,000 in 2013.

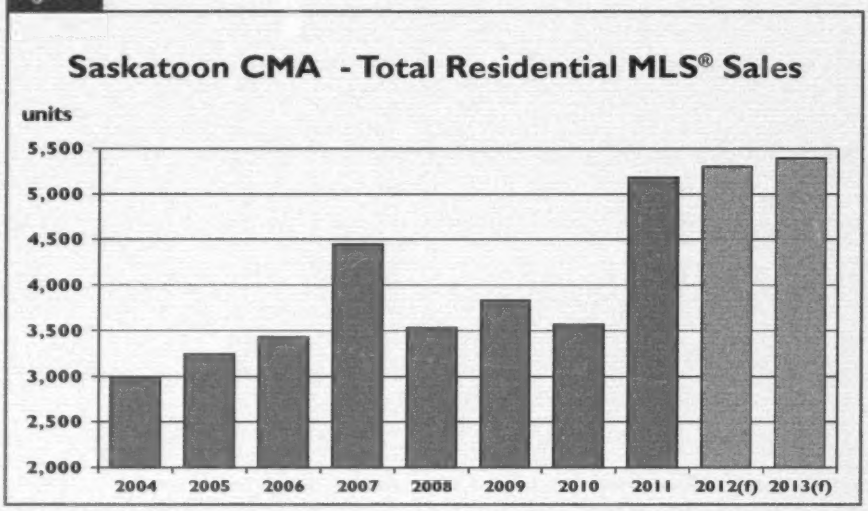
Multi-family starts to moderate

Following an 87 per cent increase to 1,386 units in 2011, multi-family starts, which consist of semi-detached units, rows, and apartments, will increase this year. Builders are on pace to start 1,500 units in 2012, up eight per cent from 2011. In 2013, expect another 1,250 units started. Competition from a well-supplied resale market and a substantial supply of new multi-family dwellings will contribute to the reduction in starts next year. Given 2011's elevated production, the supply of multi-family homes reached a 30-year high of 1,665 units in February 2012. Since then, supply has remained elevated but moderated somewhat to 1,346 units at the end of August.

Despite the anticipated reduction in starts, strong housing demand reflected by elevated absorptions and a high number of building permits issued during the first eight months of 2012 will ensure that multi-unit builders maintain a relatively high level of production through 2013. Persistently low rental apartment vacancy rates, coupled with incentives from multiple levels of government which helped fuel an uptick in rental construction in recent years, will contribute to elevated starts. Also supporting construction is the demand for ownership oriented units from residents seeking a lower priced option to a single-detached home. Furthermore, units offering lifestyle choices and convenience such as apartment and row style condominiums will remain attractive, particularly for Saskatoon's empty-nesters looking to downsize and capitalize on the equity in their existing homes.

In addition to the above, demand for multi-family units will be supported by a labour market that is staging a return to growth this year. This will reverse the impact of two consecutive years of job losses, contributing to relatively higher migratory inflows to Saskatoon and feeding demand for multi-family homes. Public sector initiatives designed to increase homeownership options such as the Mortgage Flexibilities Support Program will also support condominium production.

Figure 3



Source: CREA, CMHC Forecast (f)

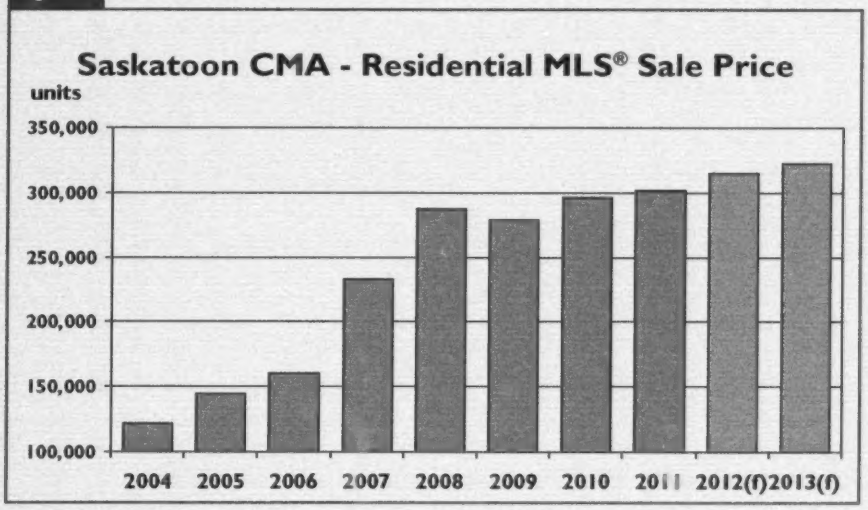
RESALE MARKET

MLS® sales to remain elevated through 2013

With the rebound in job creation drawing heightened levels of net migration, sales of existing homes in Saskatoon are on pace to reach a new high in 2012. After reaching 5,183 sales in 2011, residential transactions are expected to total 5,300 units by year-end, representing a 2.3 per cent year-over-year increase. Resale transactions are also being supported by a wide selection of listings and low mortgage rates. At the same time, public sector incentives in the form of first-time homebuyer income tax credits have motivated some households to make the move toward homeownership.

Moving forward, demand for resale homes is expected to remain elevated, supported by job and wage growth as well as population gains. Price gains from previous years will also support move-up buying, while relatively low

Figure 4



Source: CREA, CMHC Forecast (f)

mortgage rates, fewer rental vacancies, and rising rents will encourage ownership for some renter households. On the supply side, additional listings will offer more choice to buyers as newly constructed units find their way into the existing home market. Such factors are expected to raise resale transactions in Saskatoon to 5,400 units in 2013.

Sales of higher priced homes contribute to rise in average price

Following a modest increase in 2011, existing home prices in Saskatoon are on pace to rise 4.4 per cent this year, reaching an average of $314,500. This will be followed by a 2.5 per cent uptick to $322,500 in 2013. Active listings remain elevated by historical standards, which would tend to inhibit price growth this year. However, the gain in average price has thus far been supported by a movement of sales to higher priced homes, as homebuyers take advantage of low mortgage rates and equity gains from previous years. The share of sales above $400,000 reached 21 per cent so far this year, up from a 16 per cent share in 2011.

Looking ahead, an elevated supply of resale homes will help to moderate price growth. In the first eight months 2012, active listings averaged the second highest total on record, similar to 2009 levels, which contributed to a three per cent decline in price.

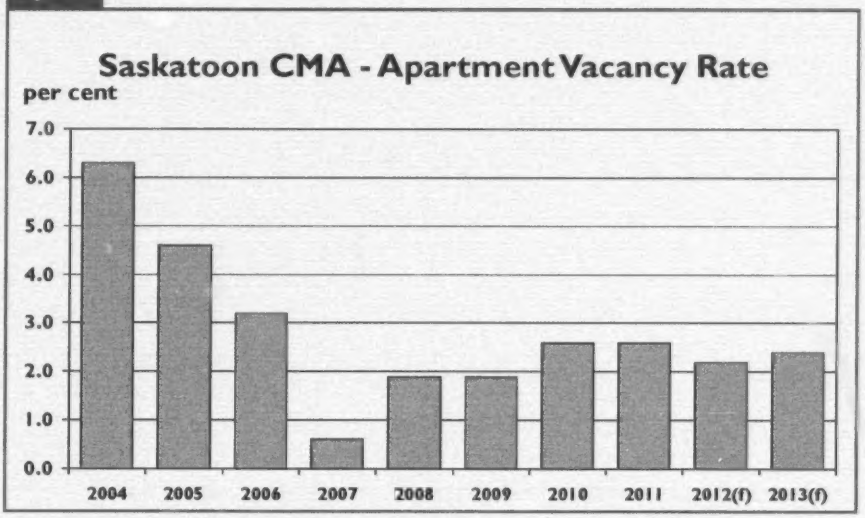
Furthermore, modestly higher mortgage rates over the forecast period should slow the shift towards higher-priced homes. On balance, these factors will relieve some of the upward price pressure that would otherwise result from heightened sales next year.

RENTAL MARKET

Apartment vacancy rate to remain stable through 2013

After holding steady at 2.6 per cent the last two years, the apartment vacancy rate in Saskatoon is expected to decline to 2.2 per cent in October 2012 before reaching 2.4 per cent vacancy next year. Strong migratory gains, particularly an in-flow of international migrants, will continue to support demand for rental units. Moreover, advances in both new and resale house prices, although lower than in prior years, will inhibit some renter households from moving to homeownership.

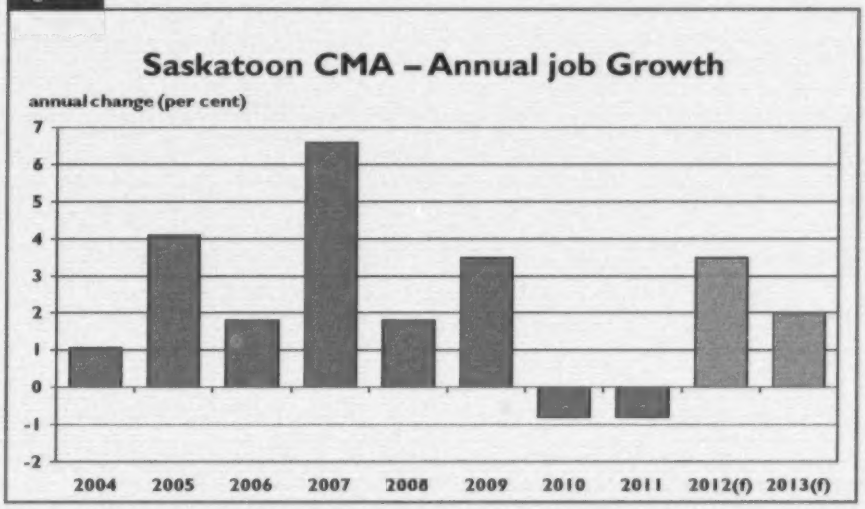
Figure 5



Source: CMHC, Fall Rental Market Survey, CMHC Forecast (f)

Tempering the reduction in vacancies will be additions to the rental universe via new construction, as well as continued competition from the secondary rental market. Saskatoon's rental unit starts were 388 in 2011. An additional 60 units were started in the first eight months of 2012, while more than 200 units were completed during that period. Additional competition will come indirectly via apartment condominiums making their way into Saskatoon's secondary rental market. In 2011, CMHC's October Rental Market Survey revealed that 22.4 per cent of all apartment condominiums surveyed were rented, up from 19.5 per cent a year prior.

Figure 6



Source: Statistics Canada, CMHC Forecast (f)

Average monthly rents to increase through 2013

With strong rental demand in Saskatoon ensuring vacancy rates remain stable through 2013, increases in average monthly rents are expected. The addition of newly constructed units will also add to average rents, as they typically command higher rents compared to older product. Under these conditions, the average monthly rent for a two-bedroom apartment will reach $990 in the October 2012 rental market survey, and rise further to $1,010 by October 2013. This will represent increases of $24 and $20 respectively, lower than the $32 monthly rent increase recorded between 2010 and 2011.

ECONOMIC OUTLOOK

Job growth rebounds in 2012

After modest reductions in 2010 and 2011, average employment in Saskatoon is once again expanding. In 2012, average employment is on pace to increase by 3.5 per cent, representing the strongest performance since 2009 and the addition of over 5,000 positions. In support of housing demand, the majority of jobs created are full-time as employers continue to promote part-time staff to full-time positions. To the end of August, the construction, manufacturing, and services sectors have recorded impressive gains in employment and currently are experiencing among the lowest unemployment rates in the Saskatoon economy.

A number of factors are contributing the employment expansion in 2012. Gains in residential investment and major capital projects are boosting construction employment, while rising manufacturing shipments are expanding payrolls in that sector. Meanwhile an expanding population and continued wage growth are supporting higher retail trade. Tempering some of the growth are volatile commodity prices, resulting in lower provincial crown land sales and slowing mining production and development activity. However, other developments, such as a $1.5 billion potash mine expansion west of Saskatoon will contribute to employment gains well beyond the forecast period.

In 2013, Saskatoon's economy will also benefit from a wide range of public and private sector investment in new and on-going capital projects, including the new police headquarters and the River Landing development downtown. These investments will positively impact the region's labour market over the forecast period. However, if a Canadian dollar near or above parity with the U.S. persists, it could inhibit some expansion related to the manufacturing and resource sectors. Considering these factors, average employment is expected to expand by 2.0 per cent in 2013, and the unemployment rate is expected to remain steady at 5.6 per cent.

Net migration to remain elevated through 2013

Following modest reductions in 2010 and 2011, net migration in the Saskatoon CMA is forecast to

increase in 2012 and remain elevated in 2013. The province's Immigrant Nominee Program (SINP) will support continued inflows of international migrants. At the same time, Saskatoon's low unemployment rate and rebound in job creation will ensure that Saskatoon remains an attractive destination for migrants from other centres. Under these conditions, net migration to the Saskatoon CMA is forecast to total 6,300 people in 2012 and 5,400 migrants in 2013.

MORTGAGE RATE OUTLOOK

Mortgage rates to remain low

Although there is significant uncertainty, mortgage rates are not expected to change in 2012. Slight increases are expected in 2013, but rates will remain low by historical standards.

According to CMHC's base case scenario, for 2012, the one-year mortgage rate is forecasted to be within 2.75 per cent to 3.50 per cent. For 2013, the one-year posted mortgage rate is expected to rise and be in the 3.00 per cent to 4.00 per cent range, while the five-year posted mortgage rate is forecasted to be within 5.00 per cent to 5.75 per cent, consistent with higher employment and economic growth prospects in 2013.

Forecast Summary Saskatoon CMA Fall 2012							
	2009	2010	2011	2012f	% chg	2013f	% chg
Resale Market							
MLS® Sales	3,834	3,574	5,183	5,300	2.3	5,400	1.9
MLS® New Listings	6,463	6,756	10,284	9,700	-5.7	9,900	2.1
MLS® Average Price ($)	278,895	296,293	301,232	314,500	4.4	322,500	2.5
New Home Market							
Starts:							
Single-Detached	1,101	1,638	1,608	1,900	18.2	1,750	-7.9
Multiples	327	743	1,386	1,500	8.2	1,250	-16.7
Starts - Total	1,428	2,381	2,994	3,400	13.6	3,000	-11.8
Average Price ($):							
Single-Detached	383,234	380,600	389,580	404,000	3.7	413,000	2.2
Median Price ($):							
Single-Detached	373,262	359,239	360,000	373,000	3.6	382,000	2.4
New Housing Price Index (% chg.)	-7.6	2.8	1.4	2.5	-	2.2	-
Rental Market							
October Vacancy Rate (%)	1.9	2.6	2.6	2.2	-	2.4	-
Two-bedroom Average Rent (October) ($)	905	934	966	990	-	1,010	-
Economic Overview							
Mortgage Rate (1 year) (%)	4.02	3.49	3.52	3.37	-	3.78	-
Mortgage Rate (5 year) (%)	5.63	5.61	5.37	5.26	-	5.37	-
Annual Employment Level	147,000	145,900	144,700	149,800	3.5	152,800	2.0
Employment Growth (%)	3.5	-0.7	-0.8	3.5	-	2.0	-
Unemployment rate (%)	4.6	5.4	5.6	5.6	-	5.6	-
Net Migration	5,497	5,359	5,217	6,300	20.8	5,400	-14.3

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Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

The forecasts included in this document are based on information available as of October 17, 2012.

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